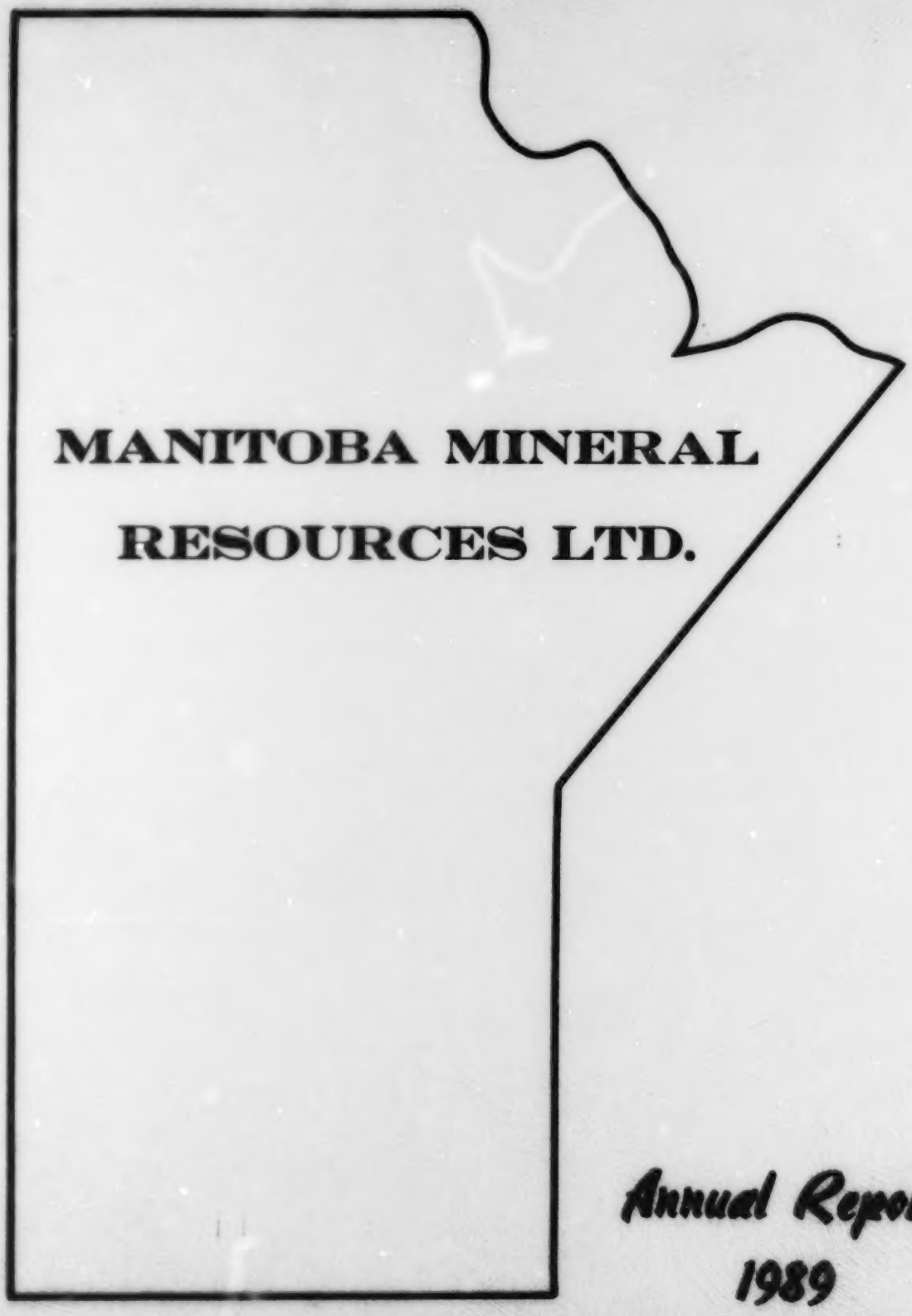


MANITOBA MINERAL RESOURCES LTD.

Annual Report
1989

MANITOBA MINERAL RESOURCES LTD.

Board of Directors

P. R. BROCKINGTON
Senior Development Officer
Department of Industry, Trade and Tourism
Chairman, Manitoba Mineral Resources Ltd.

J. W. CLARKE
President, Burrows Lumber Inc.

J. S. ROPER
Retired Mining Engineer

C. T. WILLIAMS
Consulting Mining Engineer

H. D. B. WILSON
Consulting Geologist

C. M. WRIGHT
President, Manitoba Mineral Resources Ltd.

Officers

C. MALCOLM WRIGHT
President

D. NEIL BRIGGS
Vice-President

C. VICKERS
Secretary

Head Office

603 - 491 PORTAGE AVENUE, WINNIPEG, MANITOBA R3B 2E4

90-06235/1

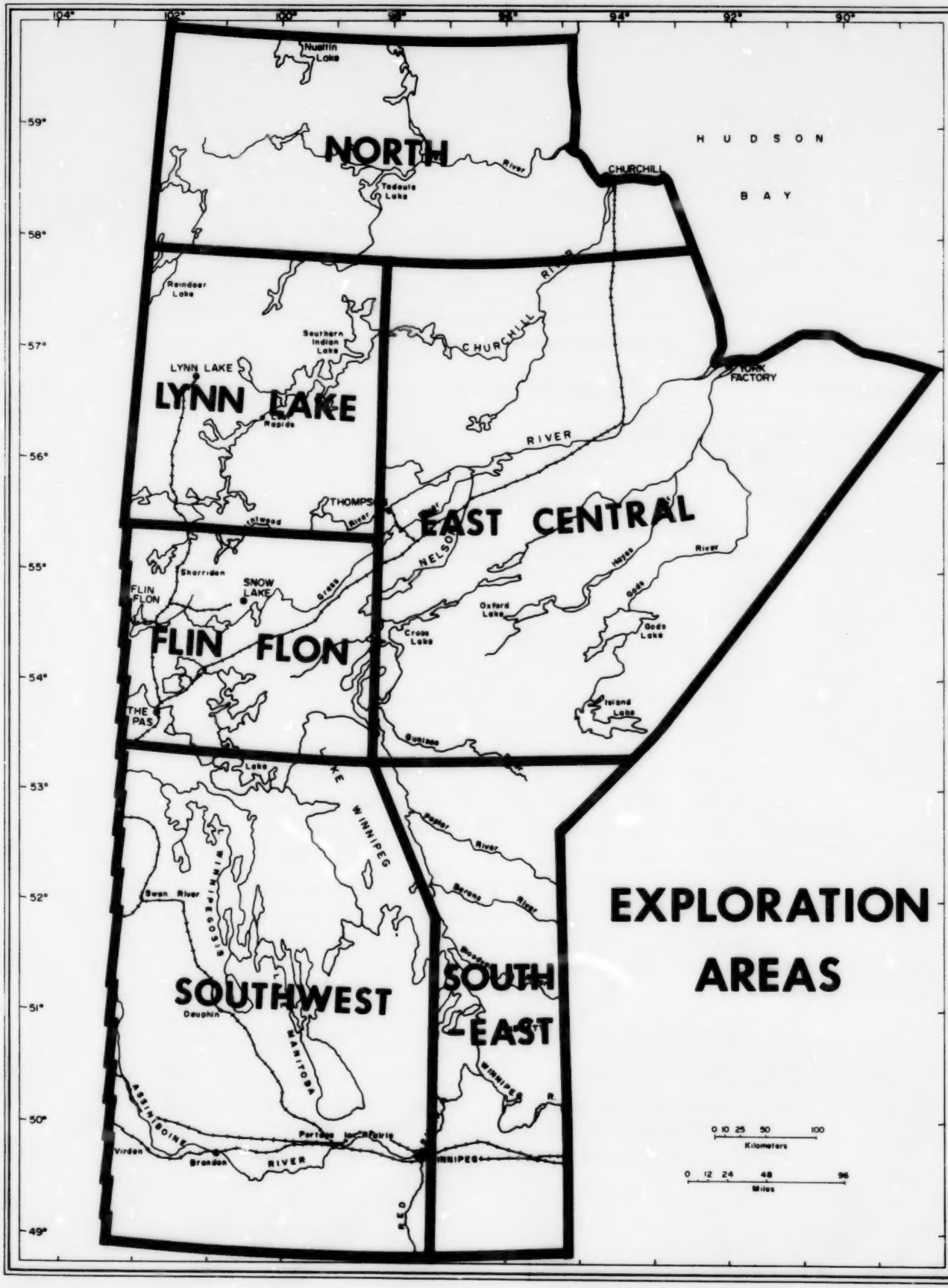
MISSION

The Corporation acts as a catalyst in fostering exploration and development of Manitoba's mineral resources.

Priority is given to exploration and development in mining districts containing communities threatened by declining ore reserves. Work is also undertaken in more remote areas with the objective of finding and developing a new mining district.

Normal business philosophy and procedures are followed internally and externally. The Corporation co-operates and competes with the private sector within the same framework of rules and regulations.

The Corporation conducts its business with regard to maintaining income at a level to ensure its role as a catalyst is self-sustaining.


NORTH
LYNN LAKE
FLIN FLON
EAST CENTRAL
SOUTHWEST
SOUTH EAST
EXPLORATION AREAS
HUDSON BAY
CHURCHILL
YORK FACTORY
THE PAS
SNOW LAKE
LYNN LAKE
Nueltin Lake
Tadoule Lake
Reindeer Lake
Southern Indian Lake
Sherridon
Cross Lake
Oxford Lake
Gods Lake
Island Lake
Swan River
Dauphin
Virden
Brandon
Portage la Prairie
WINNIPEG
RIVER
0 10 25 50 100
Kilometers
0 12 24 48 96
Miles

To the Honourable Harold J. Neufeld
Minister of Energy and Mines
Legislative Building
Winnipeg, Manitoba
R3C 0V8

SIR:

In accordance with The Manitoba Natural Resources Development Act, the Board of Directors herewith submits the Corporation's Annual Report for the year ended December 31, 1989.

FINANCIAL RESULTS

Net income rose to a record level of $7.6 million; the previous high of $4.6 million was attained in 1988.

Improved earnings resulted from an increase in interest income and a decrease in exploration expenditures which more than offset a slight decrease in net income from Trout Lake mine.

Interest income of $2.6 million was $1.9 million greater than the prior year. The increase resulted from interest on a loan receivable (sale of Callinan) and more funds on deposit.

Exploration expenditures decreased to $2.2 million from the record high level of $4.0 million in 1988. The lower level of exploration expenditures resulted from the completion of work required to reach a decision on the possible development of the Farley Lake gold deposit near Lynn Lake. Exploration expenditures in the Lynn Lake area were nevertheless maintained at a high level ($1.6 million, 74% of total Corporation exploration expenditures).

Net income from the Corporation's 27% interest in the Trout Lake mine was $8.1 million compared with $8.3 million in the prior year. Income from the sale of concentrates increased from $16.2 million in 1988 to $18.3 million in 1989. Total Trout Lake costs increased by $2.3 million to $10.1 million resulting in lower net income. Copper and zinc prices remained at historically high levels. In Canadian currency the Corporation realized average prices of $1.41 per pound of copper ($1.44 in 1988) and $0.86 per pound of zinc ($0.70 in 1988).

Capital expenditures, relating mainly to Trout Lake mine, amounted to $3.2 million in 1989 and were funded entirely from cash generated internally by the Corporation.

TROUT LAKE

Manitoba Mineral's (MMR) share of ore produced from the Trout Lake mine was at a record level of 218,466 tons grading 2.02% copper, 5.58% zinc, 0.051 oz/ton gold and 0.57 oz/ton silver.

Cash operating costs rose to $45.19 per ton from $36.62 per ton in 1988. The increased unit operating costs reflect additional manpower, increased costs for ground support, higher milling costs, increased repair and maintenance costs, and higher metal price bonus payments.

Underground exploration found sufficient new ore to more than replace the amount mined during the year, leaving the Corporation's share of proven reserves slightly increased as of the end of the year.

The first ore is scheduled to be hoisted from the Trout Lake shaft in the second quarter of 1990 with completion of the entire project by the end of the year. Total costs to completion are estimated at $27.4 million (MMR share $7.4 million).

TANTALUM MINING CORPORATION

MMR holds a 25% interest in Tantalum Mining Corporation of Canada Limited (Tanco) which produces tantalum concentrates, ceramic grade spodumene and cesium ore from a mine near Lac du Bonnet.

Tanco reported a small profit in 1989 which will go toward reduction of a bank loan. The bank loan was obtained to finance a major refurbishment of the tantalum plant in 1988, following a suspension of production since 1982. Distributions to shareholders will be made after the bank loan has been fully repaid.

EXPLORATION

Exploration was conducted on 58 projects. The private sector participated in 42 of the projects; the other 16 were carried by the Corporation for its own account. Total project expenditures, including contributions from the private sector, were $3.6 million of which the Corporation contributed $2.2 million (61%).

A feasibility study and associated work on the Farley Lake gold deposit 24 miles east of Lynn Lake were completed jointly by MMR (55.2%) and Mingold Resources Inc. (44.8%). The deposit is not economically viable at the present time and the project was placed on hold. Further exploration will be carried out in the area with the goal of discovering additional reserves to enhance the economics of the project.

PERSONNEL

The Board was saddened by the death of Mr. H. A. Laine and acknowledges his valuable contribution to the affairs of the Corporation. Mr. Laine was replaced by Mr. James W. Clarke. The remaining vacancy on the Board was filled by Mr. J. S. Roper. Dr. C. M. Wright was appointed a non-voting director in accordance with The Crown Corporations Public Review and Accountability Act.

At the year end the full-time staff numbered thirteen, unchanged from the previous year. The Board wishes to thank the members of the staff for their individual contributions to the activities and results summarized in this report.

On behalf of the Board of Directors,

C. M. Wright

C. M. WRIGHT,
President.

P. R. Brockington

PAUL R. BROCKINGTON,
Chairman of the Board.

March 26, 1990

Mining Operations — Trout Lake

The Trout Lake mine, four miles northeast of Flin Flon, is a joint venture owned by Hudson Bay Mining and Smelting Co., Limited (44.0%), Granges Inc. (29.0%) and Manitoba Mineral Resources Ltd. (27.0%). Hudson Bay operates the mine and, under a contract covering the life of the mine, mills the partners' share of ore produced. Copper and zinc concentrates are sold to Hudson Bay under a contract expiring in 1997. Data tabulated below show Manitoba Mineral's 27% share of production and ore reserves.

ORE PRODUCTION

	Tons	Copper %	Zinc %	Gold oz/ton	Silver oz/ton
1989	210,466	2.02	5.58	0.051	0.57
1988	208,497	2.16	4.57	0.046	0.45

PAYABLE METALS PRODUCED

	Copper lbs.	Zinc lbs.	Gold ozs.	Silver ozs.
1989	7,297,020	16,599,033	6,958	68,719
1988	7,646,800	12,334,425	6,872	54,130

PROVEN RESERVES

	Tons	Copper %	Zinc %	Gold oz/ton	Silver oz/ton
December 31, 1989	1,437,400	1.99	5.8	0.045	0.32
December 31, 1988	1,378,200	2.24	5.4	0.049	0.34

Record production was achieved, but operating costs increased substantially. Cash operating costs rose to $45.19 per ton compared with $36.62 per ton in the previous year. The rise in unit operating costs resulted from: increased repair and maintenance costs, increased milling costs, increased manpower required for production and ground support as the mine becomes deeper, and increased metal price bonuses reflecting high zinc prices. Increased repair and maintenance costs reflects the aging of the mobile underground equipment and the heavier demands placed on the equipment as mining proceeds to greater depths. The increased unit milling costs results from the mill treating a higher proportion of Trout Lake ore compared to ore from other sources; Trout Lake ore therefore bears a higher amount of fixed milling costs.

Payable copper was 0.3 million pounds less than in 1988 because of lower ore grade and recovery. Payable zinc was 4.3 million pounds greater than in 1988 as a result of increased ore grade, recovery and tonnage mined. Payable gold was essentially unchanged from the previous year as lower recovery offset increased ore grade and tonnage mined.

Underground exploration continued to be successful. Proven ore increased by 59,200 tons over the year despite the mining of 218,466 tons. Proven reserves are sufficient for 6.6 years at current mining rates. The prospects of increasing the indicated life by underground exploration continues to be excellent.

All ore is presently trucked up spiralling ramps to a crusher station near the surface. As mining progresses to deeper levels haulage costs increase and the system eventually becomes prohibitively expensive. Increased unit mining costs at Trout Lake over the last two years reflect this process. A shaft was started in 1987 and has reached its targeted depth of 660 meters. Development work to provide access to the ore is in progress and the first ore is expected to be hoisted in the second quarter of 1990. The shaft project is planned to be fully completed in 1990 at a total cost of $27.4 million (MMR share $7.4 million).

Exploration Operations

The Corporation starts exploration projects that are wholly-owned in the early stages with the expectation that they will attract private sector participation. Conversely, the Corporation participates in worthwhile projects proposed by the private sector.

Exploration activities in the year covered 58 projects with total expenditures of $3,592,355. The Corporation contributed $2,201,739 (61%) — the balance, amounting to $1,390,616, was supplied by the private sector.

Direct project expenditures by the Corporation and its joint venture partners are summarized below.

No. of Projects	Type	Expenditures by MMR	Expenditures by others	Total Expenditures
16	Wholly Owned	$ 993,223	—	$ 993,223
10	Joint Ventures managed by MMR	677,905	$ 411,542	1,089,447
32	Joint Ventures managed by others	530,611	979,074	1,509,685
58		$2,201,739	$1,390,616	$3,592,355

FARLEY LAKE

A full feasibility study was completed by Kilborn Manitoba Limited in the first quarter of 1989. The study showed that a production decision was not justified at a gold price of US $400 per ounce. The project was therefore placed on hold.

Further exploration is planned for the area in 1990. This work has the goal of discovering new reserves to improve the economics of the project.

AREAS EXPLORED AND METALS SOUGHT

For ease of reference the Province is divided into a number of exploration areas (see map at front). A summary of Manitoba Mineral's expenditures by area is given in the following table:

Area	No. of Projects	MMR Expenditures	Expenditures % of Total
Lynn Lake	40	$1,631,866	74.1
Flin Flon	14	371,058	16.9
Southeast	4	198,815	9.0
	58	$2,201,739	100.0

The distribution of total expenditures by metals sought was: gold 63.2%; copper-zinc 28.2%; and nickel-copper 7.0%. Research on project generation accounted for the remaining 1.6% of total expenditures.

NEW PROJECTS

Three new projects were started: two gold projects in the Lynn Lake area and one nickel-copper project in the Flin Flon area.

NEW AGREEMENTS

A joint venture agreement was signed with Mingold Resources Inc. covering the Corporation's Adam Lake gold project in the Lynn Lake area. Mingold has earned a 51% interest in the project, MMR will act as operator during the exploration phase of the project.

Two letters of intent to form joint ventures were signed during the year as follows:

Project	Area	Partner
Minago	Flin Flon	Outokumpu Mines Ltd.
Sunday	Flin Flon	Hudson Bay Exploration and Development Company Limited

MANITOBA MINERAL RESOURCES LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Manitoba Mineral Resources Ltd. as at December 31, 1989 and the statement of operations and retained earnings and the statement of changes in cash resources for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of Manitoba Mineral Resources Ltd. as at December 31, 1989 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

F. H. JACKSON, CA,
Provincial Auditor.

February 23, 1990,
Winnipeg, Manitoba.

MANITOBA MINERAL RESOURCES LTD.

BALANCE SHEET

as at December 31, 1989

(with comparative figures at December 31, 1988)

ASSETS

	1989	1988
	(in thousands)	
Current assets:		
Cash — in bank	$ 34	$ 44
— in trust with the Minister of Finance	12,610	6,985
Settlements and accounts receivable [Notes 3(b) and 5]	1,679	2,580
Loan receivable (Note 6)	7,517	—
Accrued interest receivable	585	351
Prepaid expenses	659	460
Total current assets	23,084	10,420
Loan receivable (Note 6)	—	7,517
Investment [Notes 3(d) and 7]	2,009	1,840
Fixed assets, net [Notes 3(c) and 8]	7,630	4,845
	$ 32,723	$ 24,622

Approved on behalf of the Board:

P. R. BROCKINGTON, *Director*

C. M. WRIGHT, *Director*

The accompanying notes are an integral part of these financial statements.

LIABILITIES

	1989	1988
	(in thousands)	
Current liabilities:		
Accounts payable	$ 924	$ 438

SHAREHOLDER'S EQUITY

Capital stock (Note 1):		
Authorized — unlimited number of shares without par value for unlimited consideration		
Issued and fully paid — 1,733,905 shares	17,339	17,339
Retained earnings	14,460	6,845
Total shareholder's equity	31,799	24,184
	$ 32,723	$ 24,622

The accompanying notes are an integral part of these financial statements.

MANITOBA MINERAL RESOURCES LTD.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

for the year ended December 31, 1989

(with comparative figures for the year ended December 31, 1988)

	1989	1988
	(in thousands)	
Income:		
Sale of concentrates from Trout Lake mine	$ 18,260	$ 16,205
Interest	2,560	693
Other	107	185
	20,927	17,083
Expenses:		
Administration	508	506
Depreciation and amortization	295	296
Exploration		
Wholly owned ventures	993	215
Joint ventures (Note 9)	1,209	3,755
Taxes	124	99
Trout Lake mine	9,873	7,636
	13,002	12,507
Net income before mining tax	7,925	4,576
Mining tax	310	—
Net income	7,615	4,576
Retained earnings, beginning of year	6,845	2,269
Retained earnings, end of year	$ 14,460	$ 6,845

The accompanying notes are an integral part of these financial statements.

MANITOBA MINERAL RESOURCES LTD.

STATEMENT OF CHANGES IN CASH RESOURCES

for the year ended December 31, 1989

(with comparative figures for the year ended December 31, 1988)

	1989	1988
	(in thousands)	
Cash provided by (used for):		
Operating activities:		
Net income	$ 7,615	$ 4,576
Items not involving cash		
Depreciation and amortization	295	296
	7,910	4,872
Net change in non-cash working capital balances	954	(364)
	8,864	4,508
Financing activities:		
Shares issued	—	9,939
Investing activities:		
Loan receivable	—	(7,517)
Investment	(169)	(1,840)
Fixed asset additions	(3,080)	(1,735)
	(3,249)	(11,092)
Increase in cash	5,615	3,355
Cash, beginning of year	7,029	3,674
Cash, end of year	$ 12,644	$ 7,029

The accompanying notes are an integral part of these financial statements.

MANITOBA MINERAL RESOURCES LTD.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 1989

1. *Status of the Corporation*

Manitoba Mineral Resources Ltd. is a Crown corporation established under The Manitoba Natural Resources Development Act and incorporated under The Manitoba Corporations Act. The issued shares are held by the Government of the Province of Manitoba except for five shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba. The Corporation is authorized to issue an unlimited number of common shares for an unlimited maximum consideration.

2. *Nature of the Operations*

The Corporation undertakes exploration for minerals in the Province of Manitoba through wholly-owned ventures and joint ventures.

The Corporation also maintains an interest in the development, mining and processing of ore from the Trout Lake mine and the sale of concentrates. This activity is further explained in Note 4.

3. *Significant Accounting Policies*

(a) Accounting basis

The financial statements have been prepared in accordance with generally accepted accounting principles.

(b) Settlements receivable

The Corporation has contracts with Hudson Bay Mining and Smelting Co., Limited for the sale of the Corporation's concentrates. Under the terms of the contracts, the concentrates are deemed to be sold at the time of delivery of ore to the mill. The settlements receivable on sales of concentrates are recorded at the estimated net realizable value.

(c) Fixed assets and depreciation and amortization

(i) Field and office equipment and vehicles are recorded at cost and are depreciated at various rates from 20% to 30% on a straight-line basis.

(ii) Exploration costs are expensed as incurred. Costs associated with bringing a mining property into production are capitalized and then amortized by the unit of production method based on proven reserves.

(d) Investment

This investment is accounted for by the cost method.

4. *Trout Lake Mine*

The Trout Lake mine is an unincorporated joint venture in which the Corporation has a 27% interest, Hudson Bay Mining and Smelting Co., Limited has 44% and Granges Inc. has 29%. The joint venturers take the ore produced in proportion to their interests and are individually responsible for processing the ore and sale of the resulting concentrates.

5. *Settlements and Accounts Receivable*

	1989	1988
	(in thousands)	
Settlements receivable on sales of Trout Lake mine concentrates [Note 3(b)]	$ 1,615	$ 2,548
Accounts receivable	64	32
	$ 1,679	$ 2,580

6. *Loan Receivable*

In 1988, the Corporation sold its rights to participate in the Callinan mine for $7,516,820. This amount will be received in four quarterly installments in 1990.

7. *Investment*

The investment in Tantalum Mining Corporation of Canada Limited comprised the following at December 31:

	1989	1988
	(in thousands)	
250,000 Class C shares representing 25% of the issued and outstanding shares and 25% of a 5% income debenture	$ 723	$ 723
Shareholder's loan, including accrued interest	1,286	1,117
	$ 2,009	$ 1,840

MANITOBA MINERAL RESOURCES LTD.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 1989

8. *Fixed Assets, Net*

	Cost	Accumulated Depreciation and Amortization	1989 Net Book Value	1988 Net Book Value
Trout Lake mine				
Development	$ 809,936	$ 559,179	$ 250,757	$ 297,994
Equipment	1,868,798	569,497	1,299,301	1,387,373
Construction in Progress	5,909,482	—	5,909,482	3,114,481
Waste water treatment	105,989	—	105,989	—
	8,694,205	1,128,676	7,565,529	4,799,848
Field equipment	175,526	142,543	32,983	17,634
Office equipment	88,638	57,022	31,616	28,038
Vehicles	22,907	22,907	—	—
	$8,981,276	$1,351,148	$7,630,128	$4,845,520

9. *Exploration Expenses — Joint Ventures*

	1989	1988
	(in thousands)	
Joint ventures operated by Manitoba Mineral Resources Ltd.	$ 1,089	$ 1,912
Deduct: recoveries from joint venturers	411	966
	678	946
Joint ventures operated by others	531	2,809
	$ 1,209	$ 3,755

10. *Employee Pension Plan*

Under the terms of the Corporation's pension plan, employee contributions are matched by the Corporation and these amounts are contributed to a defined contribution pension plan. As a result, there are no unfunded plan liabilities and no outstanding corporate obligations.

11. *Imputed Interest Cost Information*

The following information is presented in accordance with a request by the Minister of Finance of the Government of the Province of Manitoba.

The annual carrying cost to the Government, for its investment of $17,339,005 in share capital of the Corporation during the year as shown in the Public Accounts, calculated at the weighted average interest rate of 10.05% paid by the Government in respect of its debt for the fiscal year ended March 31, 1989 is $1,742,570.

MANITOBA MINERAL RESOURCES LTD.
SUPPLEMENTARY FINANCIAL INFORMATION
FIVE YEAR FINANCIAL SUMMARY (UNAUDITED)
(thousands of dollars)

	1989	1988	1987	1986	1985
Balance Sheet					
Current Assets	$23,084	$10,420	$ 6,662	$ 4,611	$ 3,629
Current Liabilities	924	438	400	236	121
Working Capital	22,160	9,982	6,262	4,375	3,508
Loan	—	7,517	—	—	—
Investment	2,009	1,840	—	—	—
Fixed assets, net	7,630	4,845	3,407	1,355	551
Capital employed	$31,799	$24,184	$ 9,669	$ 5,730	$ 4,059
Capital	17,339	17,339	7,400	7,400	6,800
Retained earnings (deficit)	14,460	6,845	2,269	(1,670)	(2,741)
Shareholder's equity	$31,799	$24,184	$ 9,669	$ 5,730	$ 4,059
Operations					
Income					
Sale of concentrates	$18,260	$16,205	$12,327	$ 8,721	$ 7,320
Other	2,667	878	341	287	227
	$20,927	$17,083	$12,668	$ 9,008	$ 7,547
Expenses					
Administration	508	506	336	312	248
Depreciation	295	296	238	93	84
Exploration	2,202	3,970	2,350	2,651	3,101
Taxes	434	99	33	21	27
Trout Lake mine	9,873	7,636	5,772	4,860	4,594
	$13,312	$12,507	$ 8,729	$ 7,937	$ 8,054
Net Income (Loss)	$ 7,615	$ 4,576	$ 3,939	$ 1,071	$ (507)